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Message Text

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21/13
ACTION NEA-12

INFO OCT-01 AF-10 EUR-25 ISO-00 EB-11 COME-00 INT-08

TRSE-00 SCEM-02 SCI-06 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 OMB-01 DRC-01 AID-20 /174 W
---------- 102856
R 101100Z JAN 74
FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC 396
INFO AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY NEW NEDELHI
AMEMBASSY TRIPOLI

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C O R R E C T E D C O P Y (PARA 5.)

EO 11652: N/A
TAGS: ENRG, CE
SUBJ: SRI LANKA SHARPLY INCREASES PETROLEUM PRICES

DEPT PASS USINT CAIRO

REF COLOMBO 2183 (NOTAL) STATE 251108

1. SUMMARY: GSL HAS ANNOUNCED NEAR DOUBLING RETAIL GASOLINE AND CERTAIN OTHER PETROLEUM PRODUCTS PRICES. WJNOUNCEMENT NPIMPLIES RESULTS OF CURRENT OIL PROCUREMENT MISSION ARE NOT SATISFACTORY. EXTREMELY ADVERSE IMPACT OF CRUDE PRICE INCREASES IS NOW CLEAR FOR THIS FOREIGN EXCHANGE-STARVED ECONOMY. END SUMMARY.

2. JAN 8 GSL ANNOUNCED DRASTIC INCREASED IN RETAIL GASOLINE AND OTHER PETROLEUM PRODUCTS PRICES DUE TO WORLD CRUDE IN-
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CREASES AS FOLLOWS:

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PREMIUM GAS: FROM RS 6.55 (ANNOUNCED 28 AUG 73, SEE REFTEL)
TO RS 12.50 ($1.80 AT OFFICIAL RATE, RS 6.97 TO US $1);

REGULAR GASOLINE FROM RS 6.10 TO RS 12 ($1.70);

FURNACE OIL FROM RS 1.80 TO RS 5.75 ($0.83);

ASPHALT RAISED TO RS 6.50 (0.93).

ALTHOUGH NOT MENTIONED IN ANNOUNCEMENT, GSL SOURCES INFORM US THAT PRICES OF BUNKER/AVIATION FUEL RAISED 106 PERCENT. ON 10 JAN PRESS ANNOUNCED INCREASED IN KEROSENE PRICE FROM RS 1.80 TO RS 3.60 (0.52) PER GALLON AND OF AUTO DIESEL FROM RS 2.74 TO RS 4.80 ($0.65) PER GALLON. ALTHOUGH THIS APPEARS FIRM ANNOUNCEMENT, GOOD EMBASSY SOURCE SAYS POLITICAL PRESSURE CONCERNING KEROSENE, WHICH CEYLONESE COMMONER USES FOR COOKING AND LIGHT, MAY CAUSE KEROSENE RISE TO BE REDUCED.

3. GSL COMMUNIQUE ALS ANNOUNCED DECISION TO TAKE FOLLOWING MEASURES:

A. IMMINENT INCREASE IN BUS AND RAIL FARES IN RESPONSE TO INCREASED PETROLEUM COSTS.

B. REDUCTION FROM PRESENT 5-1/2 DAY TO 5 DAY WORK WEEK AND STAGGERED WORKING HOURS; IMPLEMENTATION DATE TO BE ANNOUNCED.

C. CURTAILMENT OF OFFICIAL VEHICLE TRAVEL AND REQUESST FOR VOLUNTARY REDUCTION OF ALL PETROLEUM PRODUCTS POWERED TRAVEL, ESPECIALLY ON WEEKENDS.

4. COMMUNIQUE, IS PROVIDING SUPPORTING INFORMATION AND ANALYSES, SAID SRI LANKA WAS BUYING CRUDE AT $4.50 PER BARREL IN NOV 73 AND WAS NOW FACED WITH A PRICE OF FROM $12 TO $15 PER BARREL. CRUDE-SHOPPING MISSION TO IRAQ, SAUDI ARABIA, EGYPE AND LIBYA UNDER MINISTER OF INDUSTRIES AND SCIENTIFIC AFFAIRS, T.B. SUBASINGHE, WHO WE BELIEVE NOW IN TRIPOLI, HAS APPARENTLY REPORTED INABILITY TO COMPLY WITH INSTRUCTIONS, WHICH WE UNDERSTOOD WERE TO OBTAIN COMMITMENT SAME QUANTITIES
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AS IN 1973 (1.8 MILLION TONS CRUDE) WITH PRICES TO BE NEGOTIATED. COMMUNIQUE SAID "WHILE THESE NEGOTIATIONS HAVE NOT YET BEEN COMPLETED, THE INDICATIONS ARE THAT CRUDE OIL WILL NOT BE AVAILABLE EVEN AT THE VERY HIGH PRICES WHICH PREVAILED AT THE END OF 1973". COMMUNIQUE ADDED THAT IN 1973 SRI LANKA SPENT ABOUT RS 300 MILLION ($48 MILLION AT 1973 AVERAGE OFFICIAL RATE) FOR OIL PRODUCTS BUT IN 1974 ITS EXPENDITURES, ASSUMING CURRENT CONSUMPTION LEVELS, WOULD BE RS 1500 MILLION OR ONE-HALF SRI LANK'S ESTIMATED TOTAL FOREIGN EXCHANGE EARNINGS FOR 1974. NEW DEVELOPMENTS ALSO EXPECTED TO ELIMINATE SRI LANKA'S RS 100

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MILLION FOREIGN EXHANGE EARNINGS FROM SALE ABROAD OF REFINED
PETROLEUM PRODUCTS. ALSO ENDANGERED IN GSL AGREEMENT WITH PB-
SHELL UNDER WICH PETROLEUM SUPPLIES ASSURED AT DISCOUNT
FROM PREVAILING RATE IN RETURN FOR SPECIAL ACCESS TO SRI LANK'S
EXCESS REFINED PETROLEUM PRODUCTS.
SENIOR GSL OFFICIAL TOLD EMBOFF HE UNDERSTANDS BP-SHELL
POSSIBLY UNABLE TO HONOR 5-YEAR CONTRACT (DUE TO EXPIRE
APRIL 1974) BEYOND JAN 31 BECAUSE OF SCARCITY OF CRUDE.

5. ALTHOUGH COMMUNIQUE MAY NOT TELL FULL STORY, IT IS
CLEAR EVIDENCE THAT ACROSS THE BOARD CRUDE INCREASES IF THEY
PERSIST WILL HAVE POTENTIAL LARGELY CANCEL ANY GAIN FROM SRI
LANKAS CURRENT EFFORTS TO EXPAND DEVELOPMENT AND STABILIZE
FINANCIAL SITUATION. DOMESTIC PETROLEUM CONSUMPTION (1972 STATISTICS
MOST RECENT AVAILABLE) OF 1.8 MILLION TONS CRUDE INCLUDED
0.3 MILLION TONS EXPORTED AS REFINED PRODUCTS. ANY GREAT
REDUCTION IN DOMESTIC CONSUMPTION IS DIFFICULT BECAUSE
MOST OBVIOUS AREA FOR CUTBACK, MOTOR VEHICLE CONSUMPTION,
IS ONLY SMALL PORTION (8 PERCENT) OF TOTAL PETROLEUM
CONSUMPTIONS. KEROSENE (14 PERCENT) IS KEY DOMESTIC
COMMODITY. INDUSTRIAL FUELS (35 PERCENT), AGRICULTURAL
REQUIREMENTS (INCLUDING FERTILIZERS), AND AVIATION AND
DIESEL DISTILLATES CLOSELY RELATED TO BASIC ECONOMIC PER-
FORMANCE. GOVT SOURCES HOPE TO REDUCE DOMESTIC CON-
SUMPTION BY 30 PERCENT THROUGH NEW PRICES BUT IMPACT ON
INDUSTRIAL SECTORS PERFORMANCE LIKELY TO BE SEVERE. GSL
MAY NOT BE ABLE TO REDUCE DEMAND BELOW 1.3 MILLION TONS
CRUDE (RS 1100 MILLION ANNUALLY AT CURRENT PRICES ACCORDING
GSL PUBLISHED ESTIMATE) WITHOUT SERIOUS DAMAGE TO PRODUCTION.
AT THIS LEVEL PETROLEUM NEEDS ALONE WOULD CONSUME SOME
35 PERCENT OF ANTICIPATED 1974 FOREIGN EXCHANGE EARNINGS,
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RAISING ESTIMATED TOTAL IMPORT BILL TO 160 PERCENT OF
TOTAL EXPORT EARNINGS.

6. POLITICAL ASPECTS WILL BE SUBJECT OF SEPTEL.
VAN HOLLEN

NOTE BY OC/T: NOT PASSED CAIRO.

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